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The Day Ahead: How Much Does Europe Still Matter Anyway?

Remember 2011-2012? Sure there was some fun domestic stuff, like the first major debt ceiling battle, Operation Twist, and QE3, but for the most part, it was all about Europe. Heck, even 2010 had much more to do with Europe than most domestic market participants realized at first. After all, who even cares about Greece, right? How is that little country going to shake the very foundations of the global financial system?

While Greece has largely moved on to the realm of **manageable problems**--thus commanding less of our attention--Europe in general is still fairly interesting. We haven't been talking as much about Europe of late, largely because it hasn't been as big of a market mover domestically. Part of this has to do with the fact that domestic markets have been preoccupied with the Fed. Another part of it has to do with the fact that European bond markets have been trading in a narrower, more purposeful range.

German Bund yields (Germany's 10yr bond, which is also the European Union's benchmark 10yr bond due to Germany's size and general "big kid on the block" status in the EU) have been in a linear rally from roughly 1.0% to roughly 0.5% over the same time that US bond markets have rallied coming out of the summer months and **given back about half** of that rally in the past month and change. You might even say that Europe continues to offer some semblance of "grounding" in the same way (but to a lesser extent) that it did in 2014.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST



Average Mortgage Rates

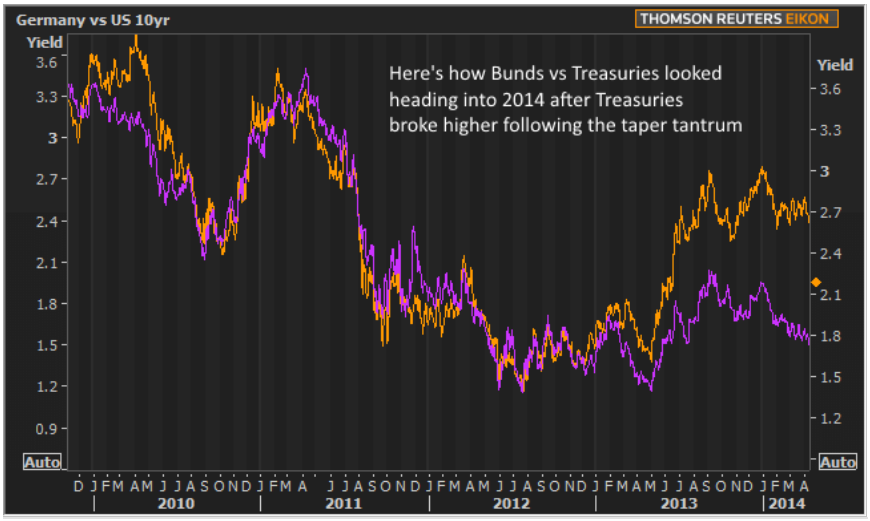
	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

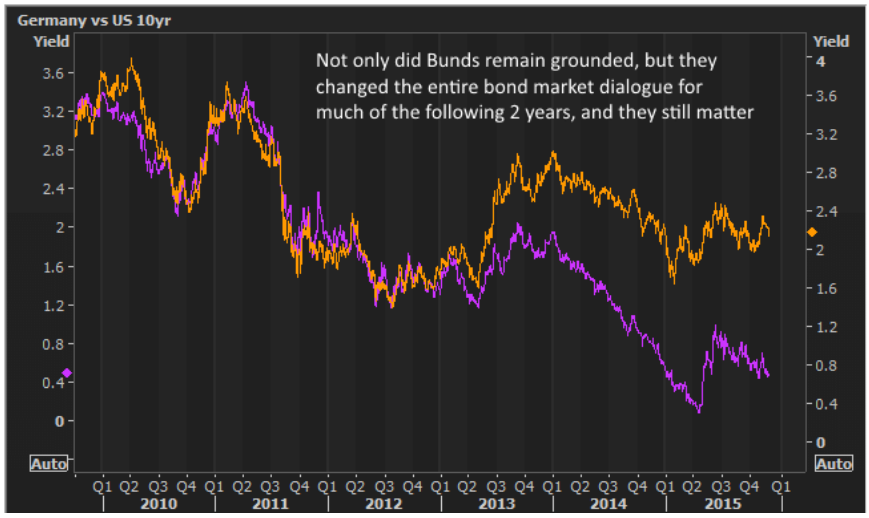
Rates as of: 11/10

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Look at the lower section of that chart again. Doesn't it look like Treasuries (the orange line) were ready to begin a long, determined march toward higher yields in 2015 after Europe bottomed out?! And doesn't it look like Treasuries have since been **grudgingly convinced** to level-off by the sharper rally in Europe?

Granted, there are other ways to explain that movement and the situation is far from that simple, but it is true that Europe continues to exert some measure of influence on domestic bond markets. With that in mind, today could be terribly interesting, depending on the nature of the **ECB Announcement and Press Conference**. I haven't heard any more buzz for an ECB meeting since they confirmed QE at the beginning of the year. Markets will likely be in the process of reacting to that by the time you read this, or shortly thereafter. The announcement itself is at 7:45am but Draghi may announce something else in his spiel at 8:30am. From there, the Q&A can be a source of volatility for hours.

Of course all of that occurs against the backdrop of another **Yellen Speech**--this time in front of the Joint Economic Committee--and the looming NFP data tomorrow morning. I don't know if that's scary or promising. At 2.20-ish in 10yr yields, we're not quite as beaten down as we were at 2.34 a few weeks ago. If rates were still that high, we could approach the next 2 days from more of a **"nothing to lose"** mentality, reckoning that we were already pricing in a lot of bad news.

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Oh, and **what does more EU accommodation even mean** if we see it today? Is it good for bond markets because it lowers rates and reduces the impetus for the Fed to hike at the pace they otherwise would (because Euro devaluation due to EU accommodation helps the Fed accomplish its goal of policy tightening without even needing to raise rates as much)? Or is it bad for bond markets because it shows the ECB is so committed to accommodation that investors will treat it as a "reflation" trade (i.e. more QE/lower rates = stimulative)? AND if we can manage to find the answers to these questions, will they not all be undone within 24 hours if NFP speaks loudly enough?! Good times...

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